

FY 2002-03 CONSENSUS REVENUES

FY 2002-03 Consensus Revenues

Senior Economist: Rebecca Ross

This section explains May 2002 consensus revenue estimates for GF/GP and School Aid Fund revenue by major revenue sources. Several important assumptions behind the revenue estimates are discussed in the following text. Figures presented include the following Public Acts or bills:

- 2002 PA 244, which moves the state education tax (SET) collection date to July and provides for a one-time, one mill reduction, is estimated to increase SAF revenue by \$469.0 million in FY 2002-03 and, due to lost interest, decrease GF/GP revenue by \$7.2 million in FY 2002-03.
- 2002 PA 503, which increases the cigarette tax by 50 cents per pack and increases the tax on other tobacco products to 20%, is estimated to increase revenue by \$58.9 million (\$40.9 million GF/GP and \$12.3 million SAF) in FY 2001-02 and \$291.5 million (\$140.2 million GF/GP and \$105.1 million SAF) in FY 2002-03.
- 2002 PA 504, which provides for a BSF transfer of \$350.0 million to the SAF for FY 2001-02, a BSF transfer of the amount needed to ensure a positive GF/GP balance for FY 2002-03 (estimated at \$335.0 million), and eliminates the BSF transfer to the state trunkline fund of \$35.0 million for FY 2002-03.
- 2002 PA 531, which increases the gross receipts filing threshold from \$250,000 to \$350,000 and provides for several energy credits, in conjunction with an estimated rate reduction suspension would increase SBT revenue to the GF/GP by \$68.8 million for FY 2002-03.
- 2002 PA 528, which allows for Sunday Lottery draws, is estimated to increase SAF revenue by \$27.0 million for FY 2002-03.

Not included is an Executive Recommendation pertaining to diesel fuel tax changes. These diesel fuel tax changes would result in an estimated \$44.0 million increase in the diesel and motor carrier fuel tax and an estimated \$4.5 million increase in the use tax for FY 2002-03. To date, there has been no action on this item.

General Fund/General Purpose Revenue by Source

- **Personal Income Tax**
Wage and salary employment is expected to decline 0.3% in 2002, then grow by 1.7% in 2003. Michigan's unemployment rate is expected to reach 6.1% in 2002, up from the 5.3% rate in 2001, then decline to 5.4% in 2003. As a result, Michigan personal income tax revenues are forecast to decline 4.5% in FY 2001-02. Baseline GF/GP income tax revenues are expected to decrease 5.0% to \$4,554.5 million in FY 2001-02, and increase by 5.8% to \$4,818.0 million in FY 2002-03.
- **Sales and Use Taxes**
Improved growth in wage and salary income will increase baseline sales and use tax revenue from \$966.4 million in FY 2000-01 to \$999.4 million in FY 2001-02, and by 6.4% to \$1,063.3 million in FY 2002-03.
- **Single Business and Insurance Taxes**
Single Business Tax (SBT) revenues accrue to the GF/GP. Net baseline business taxes (SBT plus insurance taxes) were \$2,223.0 million in FY 2000-01 and will increase 2.1% to \$2,270.0 million in FY 2001-02 and 4.8% to \$2,379.0 million in FY 2002-03. Baseline Single Business Tax revenues alone were \$2,022.3 million in FY 2000-01; they are expected to increase 0.4% to \$2,030.0 million in FY 2001-02 and 4.7% to \$2,125.0 million in FY 2002-03. Baseline estimates do not include the full impact of SBT ongoing rate reductions that will affect FY 2001-02 and FY 2002-03 revenue collections.
- **GF/GP Baseline Tax Revenues**
Final GF/GP baseline tax revenues totaled \$8,660.6 million in FY 2000-01. General Fund/General Purpose baseline tax revenues are expected to decrease in FY 2001-02 by 2.4% to \$8,453.2 million and increase in FY 2002-03 by 5.3% to \$8,898.2 million.

CONSENSUS REVENUES

Total GF/GP Baseline Revenues

Total baseline GF/GP revenues include baseline tax revenues and non-tax revenues. Non-tax revenue includes revenue from the liquor purchase revolving fund, federal aid, licenses and permits, and investment income and borrowing costs. Total GF/GP baseline revenues were \$8,962.5 million in FY 2000-01. General Fund/General Purpose baseline revenues are expected to decrease by 2.9% to \$8,701.8 million in FY 2001-02, and increase by 4.9% to \$9,131.8 million in FY 2002-03.

Actual GF/GP Revenues

Actual GF/GP revenues represent revenues available for expenditure each year. Final total actual GF/GP revenues were \$8,989.5 million in FY 2000-01. Actual GF/GP revenues are expected to decline by 6.0% to \$8,446.9 million in FY 2001-02. Actual GF/GP revenues are expected to increase by \$159.1 million or 1.9% to \$8,606.0 million in FY 2002-03.

GF/GP REVENUE ESTIMATES **(Millions of Dollars and Fiscal Years)**

	Final 2000-01	2001-02	2002-03	2002-03 over 2001-02 % Change	\$ Change
Personal Income Taxes	\$4,791.7	\$4,554.5	\$4,818.0	5.8%	\$263.5
Sales and Use Taxes	966.4	999.4	1,063.3	6.4%	63.9
SBT and Insurance Taxes	2,223.0	2,270.0	2,379.0	4.8%	109.0
Other Taxes	<u>679.5</u>	<u>629.3</u>	<u>637.9</u>	1.4%	<u>8.6</u>
GF/GP Baseline Tax Revenues	\$8,660.6	\$8,453.2	\$8,898.2	5.3%	\$445.0
Non-Tax Revenue	301.9	248.6	233.6		(15.0)
Total GF/GP Baseline Revenues	\$8,962.5	\$8,701.8	\$9,131.8	4.9%	\$430.0
Adjustments to Baseline					
Prior to May Consensus	<u>27.0</u>	<u>(295.8)</u>	<u>(727.6)</u>		(\$431.8)
After May Consensus	<u>0.0</u>	<u>40.9</u>	<u>201.8</u>		\$160.9
Actual GF/GP Revenues	\$8,989.5	\$8,446.9	\$8,606.0	1.9%	\$159.1

School Aid Fund Revenue by Source

Sales and Use Taxes

Combined sales and use tax revenue dedicated to the SAF equaled \$5,075.9 million in FY 2000-01 and are forecast to increase 2.4% to \$5,198.1 million in FY 2001-02 and 4.6% to \$5,439.6 million in FY 2002-03. Baseline sales tax revenues are forecast to increase 2.4% in FY 2001-02 and 4.7% FY 2002-03; baseline use tax revenue to the SAF are estimated to increase 2.6% in FY 2001-02 and 4.0% in FY 2002-03.

Income Tax

Approximately 23.0% of gross income tax collections are dedicated to the SAF. Baseline dedicated income tax revenue is forecast to decrease 3.4% to \$1,889.0 million in FY 2001-02 and increase 5.2% to \$1,986.5 million in FY 2002-03.

Lottery/Casinos

Lottery revenues contributed \$587.0 million to the SAF in FY 2000-01. Baseline lottery revenues to the SAF are projected to increase 3.1% to \$605.0 million in FY 2001-02 and decline 1.7% to \$595.0 million in FY 2002-03. Casino revenue contributed \$75.4 million to the SAF in FY 2000-01, and is estimated to be \$92.0 million in FY 2001-02 and \$96.0 million in FY 2002-03.

Tobacco Taxes

Approximately 64.0% of gross tobacco tax revenue is dedicated to the School Aid Fund. The School Aid Fund received \$383.1 million from tobacco taxes in FY 2000-01. The demand for tobacco products is expected to decline over the

duration of the forecast. Total SAF tobacco tax revenues are expected to decrease to \$378.6 million in FY 2001-02, and to \$371.0 million in FY 2002-03.

State Education Tax/Real Estate Transfer Tax

All of the 6-mill state education tax (SET) and the real estate transfer tax (RET) is dedicated to the SAF. Revenues from the SET were \$1,489.6 million in FY 2000-01. SET revenues are expected to increase 5.1% to \$1,565.0 million in FY 2001-02 and 4.8% to \$1,640.0 million in FY 2002-03. The real estate transfer tax contributed \$252.9 million to the SAF in FY 2000-01 and is forecast to contribute \$241.0 million to the SAF in FY 2001-02 and \$254.0 million in FY 2002-03.

Total SAF Baseline Revenues

Final total SAF baseline revenues were \$9,994.1 million in FY 2000-01. Baseline revenues are expected to increase 1.6% to \$10,149.0 million in FY 2001-02, and 4.1% to \$10,565.7 million in FY 2002-03.

Actual SAF Revenues

Actual SAF revenues represent revenues available for expenditure each year. Actual SAF revenues include tax changes, beginning balances, federal funds, and BSF transfers, but do not include any GF/GP transfers to SAF. Actual SAF revenues were \$11,039.5 million in FY 2000-01 and are expected to increase 3.6% to \$11,439.1 million in FY 2001-02, then increase 10.3% to \$12,615.2 million in FY 2002-03.

SCHOOL AID FUND REVENUE ESTIMATES
(Millions of Dollars and Fiscal Years)

<u>Revenues</u>	<u>Final 2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2002-03 over 2001-02</u> <u>% Change</u>	<u>\$ Change</u>
Sales and Use Tax	\$5,075.9	\$5,198.1	\$5,439.6	4.6%	241.5
Income Tax Earmark	1,955.3	1,889.0	1,986.5	5.2%	97.5
Lottery and Casinos	662.4	697.0	691.0	-0.9%	(6.0)
Tobacco Taxes	383.1	378.6	371.0	-2.0%	(7.6)
State Education Tax	1,489.6	1,565.0	1,640.0	4.8%	75.0
Real Estate Transfer Tax	252.9	241.0	254.0	5.4%	13.0
Liquor Excise and Specific Taxes	<u>174.9</u>	<u>180.3</u>	<u>183.6</u>	1.3%	<u>3.3</u>
Baseline SAF Revenues	\$9,994.1	\$10,149.0	\$10,565.7	4.1%	\$416.7
Adjustments to Baseline	<u>1,045.4</u>	<u>1,290.1</u>	<u>2,049.5</u>		<u>\$759.4</u>
Actual SAF Revenues (less GF/GP Transfer)	\$11,039.5	\$11,439.1	\$12,615.2	10.3%	\$1,176.1

HFA Estimates of Year-End Balances

The following table reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Please see the notes following the table for additional detail.

YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	<u>FY 2000-01</u>	<u>FY 2001-02</u>
General Fund/General Purpose	\$28.1	\$114.5
School Aid Fund	694.8	227.5
Budget Stabilization Fund	994.1	268.5

CONSENSUS REVENUES

With regard to the year-end estimates, please note the following:

- ' Fiscal year 2000-01 estimates for GF/GP and the SAF are based on year-to-date appropriations, projected year-end adjustments, and consensus revenue estimates.
- ' School Aid Fund revenues are restricted; hence, any year-end balance is carried forward to the subsequent year.
- ' Budget Stabilization Fund (BSF) estimates are based on current balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

Budget Stabilization Fund Year-End Balances

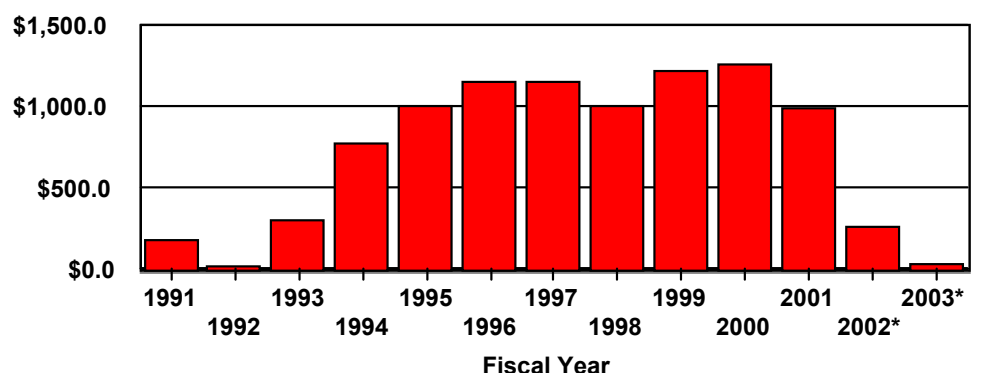
The following table reports a history of BSF deposits, withdrawals, and interest earnings from FY 1990-91 to FY 2000-01 and HFA estimates of deposits, expected interest earnings, and year-end balances for FY 2001-02 through FY 2002-03. A complete list of BSF historical data is available from the HFA upon request.

The final BSF fund balance for FY 2000-01 was \$994.1 million. The fund balance for FY 2001-02 is forecast to total \$268.5 million and for FY 2002-03 is forecast to measure \$38.3 million. These estimates include the effects of PA 504 of 2002, which transfers \$350.0 million to the SAF in FY 2001-02, the amount needed to ensure a balanced GF/GP fund balance in FY 2002-03, and a one-year suspension of the on-going \$35.0 million withdrawals for the state trunkline fund in FY 2002-03.

BUDGET STABILIZATION FUND (Millions of Dollars)

<u>Fiscal Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earned</u>	<u>Balance</u>
1990-91	0.0	230.0	27.1	182.2
1991-92	0.0	170.1	8.1	20.1
1992-93	282.6	0.0	0.8	303.4
1993-94	460.2	0.0	11.9	775.5
1994-95	260.1	90.4	57.7	1,003.0
1995-96	91.3	0.0	59.3	1,153.6
1996-97	0.0	69.0	67.8	1,152.4
1997-98	0.0	212.0	60.1	1,000.5
1998-99	244.4	73.7	51.2	1,222.5
1999-2000	100.0	132.0	73.9	1,264.4
2000-01	0.0	337.0	66.7	994.1
2001-02 <i>Estimate</i>	0.0	752.0	26.5	268.5
2002-03 <i>Estimate</i>	0.0	239.0	8.8	38.3

Budget Stabilization Fund (BSF) (Millions of Dollars)



* HFA Estimates

Compliance with the State Revenue Limit

HFA estimates of the state revenue limit provided for in Article IX, Section 26, *Constitution of the State of Michigan*, and estimates of total state revenue collections subject to the state revenue limit are shown in the following table. As provided for in the *Constitution*, the revenue limit is calculated as 9.49% of total state personal income in the previous full calendar year prior to the fiscal year in which the revenues are measured, as estimated by the Bureau of Economic Analysis, United States Department of Commerce.

COMPLIANCE WITH THE STATE REVENUE LIMIT (Millions of Dollars)

Revenue Limit Calculations	FY 2000-01	FY 2001-02	FY 2002-03
Personal Income			
Calendar Year	CY 1999	CY 2000	CY 2001
Amount	\$277,296	\$289,390	\$295,108
X Limit Ratio	9.49%	9.49%	9.49%
State Revenue Limit	\$26,315.4	\$27,463.1	\$28,005.7
Total Revenues Subject to Revenue Limit	23,909.2	23,435.9	24,451.9
Amount Under (Over) State Revenue Limit	\$2,406.2	\$4,027.2	\$3,553.8

Implications of Exceeding the State Revenue Limit

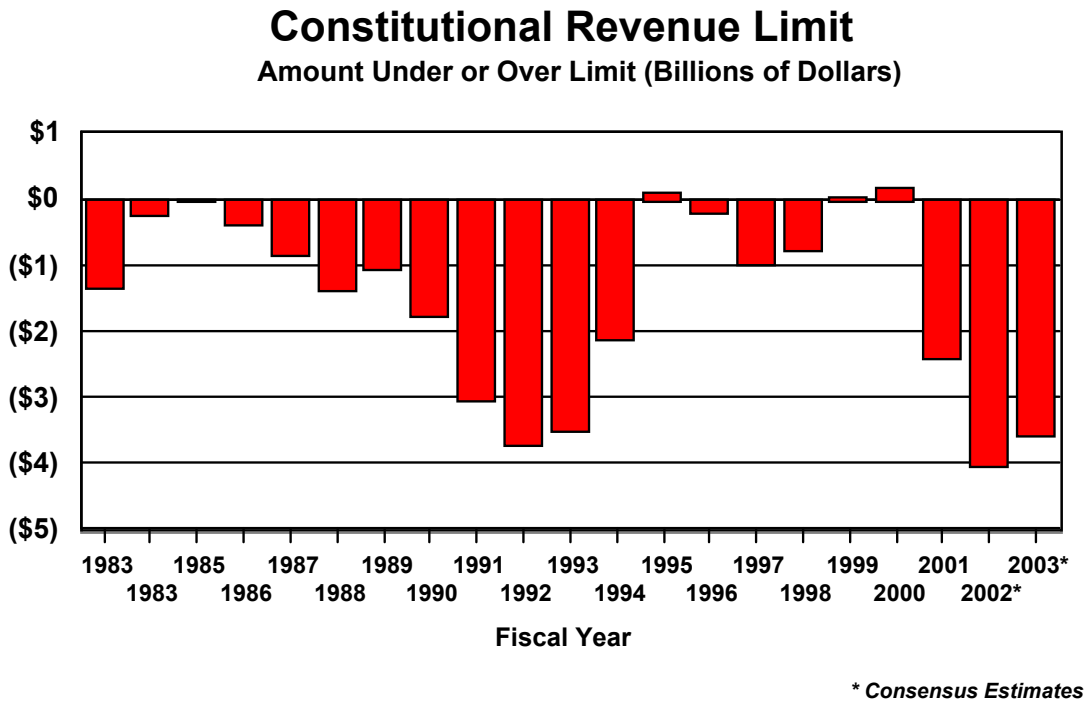
Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

... For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund ...

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by

Article IX, Section 28.

The final FY 2000-01 revenue limit calculation indicates that the state revenue collections were well under the revenue limit. In addition, for both FY 2001-02 and FY 2002-03, state revenues are estimated to be substantially below the revenue limit, by \$4.0 billion and \$3.6 billion respectively.



Fourth Floor, North Tower, Anderson Building
124 North Capitol Avenue, Lansing, Michigan 48933

Mail to: P. O. Box 30014
Lansing, Michigan 48909-7514

Phone: 517-373-8080 FAX: 517-373-5874
www.house.mi.gov/hfa



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